

Important News About Your Savings Plus Account

The Savings Plus Program is pleased to announce important changes to our program that are the result of recent reforms in state and federal pension law.

Whether you're retired or still working, receiving distribution payments or waiting for your payments to start – you now have new choices. To find out more, please review the section of this special *NewsLine* that applies to you:

- If you currently receive payments from your SPP account, **see page 2.**
- If you set a date that is still in the future for your SPP payments to start, **see page 4.**
- If you no longer work for the State of California or California State University system (CSU) and are not receiving payments and have not set a date for payments to start, **see page 5.**
- If you're currently employed by the State/CSU, **see page 6.**
- If you're planning to retire in 2002, **see page 7.**

Got questions? Try SPP's new email system, accessible from our Web site at www.sppforu.com. We've upgraded it to provide answers to more of your frequently asked questions. If you don't find the information you need, your inquiry will be routed to the appropriate SPP staff. You also may speak to a customer service representative Monday - Friday, 8:30 am - 4:00 pm (PT) at 866-566-4777 (press *0).

For the next few weeks, we expect our email and call volume to be higher than normal as participants take advantage of the new options that pension reform now allows. We appreciate your patience as we process your request as quickly as possible.

If you currently receive payments from your SPP account

The pension reform law allows you to change previously “irrevocable” decisions regarding payment options from your 457 plan. To choose a new payment option (summarized below), request a copy of our *revised* 457 Benefit Payment Application booklet, available soon at our Web site or by phone. There are separate booklets for the 401(k) and 457 plans. The revised versions will be available at:

- Web site (www.sppforu.com): Go to Plan Info & Forms, then select Forms and Publications.
- Phone (866-566-4777): Enter your Social Security number and PIN, press 4, then press 5. Enter 8007 for a 401(k) booklet; 8013 for a 457 booklet. Once new forms are ready, it takes 6-10 days for delivery.

Here are your payment options.

	401(k)	457
Direct payment	You may specify a percentage or dollar amount to be paid directly to you. If you withdraw funds before age 59½, you must pay a 10% tax penalty. If you reside in California, you also must pay an additional State tax of 2½%. (Tax penalties don’t apply to certain early withdrawals from 401(k) plans.)	You may specify a percentage or dollar amount to be paid directly to you.
Rollover to an IRA	You may specify a percentage or dollar amount to be rolled over.	You may specify a percentage or dollar amount to be rolled over. If you withdraw funds from the IRA before age 59½, you must pay a 10% tax penalty. If you reside in California, you also must pay an additional State tax of 2½%.
Rollover to another employer’s plan	You may specify a percentage or dollar amount to be rolled over.	You may specify a percentage or dollar amount to be rolled over.
Purchase annuity	You may specify a percentage or dollar amount for the purchase.	You may specify a percentage or dollar amount for the purchase.
Any combination of the above	You may choose a combination of options listed above.	You may choose a combination of options listed above.

The following options are available only for funds in a 457 Plan	
Periodic payments	<p>You may choose monthly or annual payments. Specify either:</p> <ul style="list-style-type: none"> • Fixed period (length of time), or • Fixed amount (specific dollar amount). <p>While receiving periodic payments, you may at any time choose to either:</p> <ul style="list-style-type: none"> • Liquidate 100% of your account: Complete a 457 Benefit Payment Application indicating how you want your remaining funds distributed. Payment will be made within 45 days. • Request a supplemental distribution: Complete a 457 Benefit Payment Application indicating the dollar amount you want to receive. This payment does not affect the periodic payment schedule you've already established.
Change periodic distributions	<p>You may change your periodic distribution or payment period. Submit a 457 Benefit Payment Application by August 31. The change will be effective within 45 days. Beginning in 2003, you may change your periodic distributions annually between April 1 and May 31. The change will be effective within 45 days.</p>
Stop/Re-Start distribution	<p>You may stop periodic distributions at any time. Submit a 457 Benefit Payment Application. You may re-start periodic distributions annually by submitting a 457 Benefit Payment Application between April 1 and May 31. The distribution will be effective within 45 days.</p>

Questions & Answers If You're Currently Receiving Payments

1. Question: I currently receive periodic distributions (payments) from my 457 account. Does the new law allow me to make changes?

Answer: Yes, you will be able to make changes (no more than once each year). To change your payment method, fill out a 457 Benefit Payment Application and submit it by August 31, 2002. *(The revised form will be available shortly.)* Your new payment method will be effective within 45 days. After August 31 and annually thereafter, SPP will allow participants to submit changes to their periodic payments between April 1 and May 31. Changes will take effect within 45 days.

2. Question: Will SPP change the way distributions are calculated for 457 plans based on the new life expectancy table issued by the IRS?

Answer: Yes. Beginning this year (2002), SPP will use the new table (called the Uniform Table) to determine required minimum distributions. Remember, the new laws allow you to select any period over which you want payment. Once you reach age 70½, your distribution will be reviewed annually to make sure you're receiving the IRS required minimum distribution. If you're not receiving the minimum, the payment amount will be increased to the required level automatically.

3. Question: I currently receive distributions from my 457 account and want to roll over the funds remaining in my account to an IRA. Is this permitted?

Answer: Yes. However, if you are 70½ or older and transfer your funds to an IRA, we will pay you the required minimum distribution (see question above) before the remaining funds are transferred to your IRA. This same rule applies to 401(k) rollovers.

Remember, once you roll over assets from your SPP account to an IRA, you become subject to the rules that apply to IRAs. That means you must pay a 10% tax penalty on most IRA withdrawals before age 59½ and, if you reside in California, an additional State tax of 2½%.

If you set a date that's still in the future for your SPP payments to start

Your future “commencement date” is no longer in effect. Instead, you now can choose from more flexible payment options. That’s because pension reform eliminated the rule that required you to choose, within 60 days of retiring or leaving State service, when payments from your 457 plan would begin (known as your commencement date).

You may now delay payments from your SPP account as long as you want, up until you reach age 70½. IRS regulations require that you begin receiving “required minimum distributions” (payments) no later than April 1 of the year following the year you reach age 70½, or the year when you retire, whichever is later. You have the option to delay your first minimum payment for one year. However, if you delay, you’ll receive two payments the following year. Since these payments are taxed as ordinary income, the double payment could result in your owing more taxes.

SPP’s Benefit Payment Application booklet will be available soon by Internet and phone. It will provide additional information on your new distribution options. To find it on our Web site (www.sppforu.com), you’ll go to Plan Info & Forms, then select Forms and Publications. There are separate booklets for the 401(k) and 457 plans. By phone, call our toll-free number at 866-566-4777, enter your Social Security number and PIN, press 4, then press 5. Enter 8007 for a 401(k) booklet; 8013 for a 457 booklet. As soon as the revised forms are ready, it takes 6-10 days for delivery.

Questions & Answers If Your Payments Were Set to Begin on a Future Date

1. Question: When I retired, I set September 1, 2002, as the date I wanted payments from my 457 plan to begin. Do I need to do anything?

Answer: Yes. If you still want your payments to start on that date, you must complete a new Benefit Payment Application. Payments will begin within 45 days after you submit the new application.

2. Question: When I left State service, I chose January 2002 as the month when I wanted payments to begin from my 457 plan. Later, I submitted a request to delay payments until July 2003. Can I make another change?

Answer: Yes. In fact, all future commencement dates have been revoked as a result of the new pension law changes. You may start payments at any time (you must fill out a new Benefit Payment Application to do so) but no later than the year when you reach age 70½.

If you no longer work for the State of California or California State University system and are not receiving payments and have not set a date for payments to start.

You may continue to delay payments from your SPP account as long as you want, up until you reach age 70½. IRS regulations require that you begin receiving “required minimum distributions” (payments) no later than April 1 of the year following the year you reach age 70½, or the year when you retire, whichever is later. You have the option to delay your first minimum payment for one year. However, if you delay, you’ll receive two payments the following year. Since these payments are taxed as ordinary income, the double payment could result in your owing more taxes.

SPP’s Benefit Payment Application booklet will be available shortly by Internet and phone; it provides the details on your new distribution options. At our Web site (www.sppforu.com), you’ll go to Plan Info & Forms, then select Forms and Publications. There are separate booklets for the 401(k) and 457 plans. By phone, call our toll-free number at 866-566-4777, enter your Social Security number and PIN, press 4, then press 5. Enter 8007 for a 401(k) booklet; 8013 for a 457 booklet. Once the new forms are ready, it takes 6-10 days for delivery.

Questions & Answers If You No Longer Work and are Not Receiving Payments and Have Not Set a Date for Payments to Start

1. Question: I want to continue to leave my funds invested through SPP. How long can I continue to do that?

Answer: You can continue to leave your funds invested and not take any payments up until you reach age 70½. At that time, you are required to begin receiving a “required minimum distribution” as described above.

2. Question: If I start receiving payments, can I later make a change?

Answer: Yes, you will be able to make changes annually between April 1 and May 31. You will need to submit a Benefit Payment Application. Changes will take effect within 45 days.

3. Question: I don’t want to receive monthly payments but may want to withdraw some of my funds. Can I do that?

Answer: Yes, you can request a direct payment of all or any portion of your funds. Keep in mind that if you are not 59½ and chose to withdraw funds from your 401(k), you must pay a 10% tax penalty. If you reside in California, you also must pay an additional State tax of 2½%. There’s no penalty for withdrawing funds from your 457 plan if you’re no longer employed by the State/CSU.

If you're currently employed by the State/CSU

Higher contribution limits

The pension reform law increases the maximum contribution limit for 401(k) and 457 plans to \$11,000 per plan in 2002 (or 100% percent of your annual compensation if it's less than the annual limit). The following chart lists the annual limits through 2006. After that, increases in the annual limit will be indexed to inflation.

Year	401(k) Contribution Limit	457 Contribution Limit	Maximum Contribution to Both Plans
2002	\$11,000	\$11,000	\$22,000
2003	\$12,000	\$12,000	\$24,000
2004	\$13,000	\$13,000	\$26,000
2005	\$14,000	\$14,000	\$28,000
2006	\$15,000	\$15,000	\$30,000

This means that if you enroll in both SPP plans (401(k) and 457), you may reduce your taxable income by up to \$22,000 in 2002. (If you have a 403(b) plan and a 401(k) plan, your combined contributions to both plans may not exceed the annual limit for a 401(k) plan.)

Additional Contributions If You're Age 50 or Older

A new provision allows you to defer (contribute) an additional amount to your SPP account once you reach age 50. For 2002, if you're 50 or older you may contribute up to \$1,000 over the annual limits described above, for a total of \$12,000 to each plan. This "age-based deferral" amount goes up by \$1,000 each year through 2006, after which it will be indexed to inflation.

Note: The new law prohibits you from contributing the additional age-based deferral amount in years that you participate in 457 "Catch-up," described below.

Higher Limits for 457 "Catch-Up"

The 457 Plan has always offered a special "catch-up" provision that allows you to exceed the annual contribution limit if:

- you were eligible to contribute the maximum to either a 457 or 401(k) plan but did not contribute the maximum for the year(s) you were eligible, and
- you are at least 47 years old.

You may make catch-up contributions for three years. However, you can't make catch-up contributions in the year you actually retire.

If you're eligible based on the criteria above, the amount you're allowed to contribute using the 457 catch-up provision depends on how much you "under contributed" in prior years. For example, if you didn't contribute to an SPP account at all last year (2001), you would be allowed to contribute up to \$8,500 to a 457 plan in 2002 in addition to the \$11,000 annual maximum. (If you're enrolled in a 401(k) plan, you also may contribute up to \$11,000 to that plan). The \$8,500 "catch-up" amount represents the difference between what you contributed (zero) and the maximum allowable contribution in 2001.

Under the new law, you may contribute up to twice the maximum deferral amount to a 457 plan if you're eligible for catch-up, as long as the "catch-up" portion does not exceed the amount you under-contributed in prior years.

The chart below shows the maximum 457 contribution amount using this catch-up provision. (In addition to these contributions, you also may contribute to a 401(k) account up to the annual limit. However, there is no additional catch-up amount for 401(k) plans.)

Year	457 Contribution Limit	Catch-Up Limit	Maximum 457 Contribution With Catch-up
2002	\$11,000	\$11,000	\$22,000
2003	\$12,000	\$12,000	\$24,000
2004	\$13,000	\$13,000	\$26,000
2005	\$14,000	\$14,000	\$28,000
2006	\$15,000	\$15,000	\$30,000

Your participation in catch-up must be approved by SPP before you increase your contributions. The updated 457 Catch-up Worksheet will be available shortly by Internet or phone. At our Web site (www.sppforu.com), you'll go to Plan Info & Forms. By phone, call our toll-free number at 1-866-566-4777, enter your Social Security Number and PIN, press 4, then press 5. Enter 8014. Once the form is available, it takes 6-10 days for delivery.

Using SPP Funds to Purchase Service Credits

You may now use funds in your 457 plan to purchase service credit with the California Public Employees' Retirement System and the California State Teacher's Retirement System. The law already allows you to use 401(k) funds to purchase service credit.

If you plan to use SPP funds to purchase service credit, your first step should be to request a cost estimate from CalPERS or CalSTRS. After you receive your estimate, submit either a 401(k) or 457 Service Credit Buy Back form to Savings Plus.

If you have questions about your eligibility to purchase prior service credit, contact CalPERS at (800) 352-2238 or CalSTRS at (800) 228-5453.

If you're planning to retire in 2002

The new law allows more flexibility in making your retirement decisions. The 457 plan now offers a wide variety of payment options. Similar options are planned for the 401(k) plan starting in 2003. The updated 401(k) and 457 Benefit Payment Application booklet, available shortly, will explain the variety of payment choices available to you so that you can make an informed decision about the best option for your particular situation. You may wish to obtain the advice of a professional tax advisor and/or retirement planner before you select a payment option.

Deferring lump sum separation pay

Employees who separate from employment that are eligible to cash out their leave balance may transfer a designated amount from their lump sum separation payment to an existing 401(k) and/or 457 plan offered through Savings Plus. The amount of leave deferred cannot exceed the normal annual contribution limits.

While it is not necessary that you currently be making monthly contributions to a 457 and/or 401(k) plan, you must have a plan established at least one pay period prior to your separation/retirement date.

in order to defer your lump sum separation payment. If you don't have a Savings Plus account, fill out an Enrollment Agreement and submit it to Savings Plus. The form is available at www.sppforu.com (go to Plan Info & Forms, then select Forms and Publications). If you have questions, call customer service Monday – Friday, 8:30 a.m. – 4:00 p.m. (PT) at 866-566-4777 (press *0).

Contact your personnel office for more information on how to defer all or a portion of your leave payment and to obtain a *Request to Defer Lump Sum Separation Pay* form. Your request must be submitted to your personnel office at least 15 days prior to your separation/retirement date.